HOUSING MARKET OUTLOOK
Kingston CMA

CANADA MORTGAGE AND HOUSING CORPORATION

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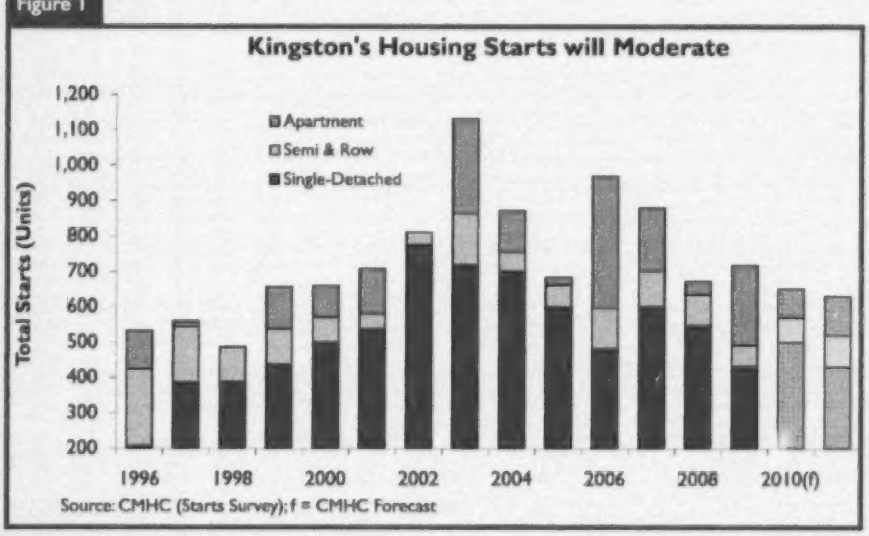
Market at a Glance

- Sales of existing homes have moderated from first quarter levels and will decline by 5.2 per cent this year. Next year, sales will decline only modestly as the housing market stabilizes.
- Although the Kingston existing home market appears to be cooling-off in recent months, on balance average resale home prices will grow this year. In 2011, with moderating sales activity and increasing new listings, the rate of change in average price growth will slow and follow the national rate of inflation.
- The Kingston Census Metropolitan Area (CMA) total housing starts in 2010 will decline modestly to 650 units, as apartment start segment remains a drag on total residential construction activity. In 2011, starts will continue its downward trend and move to a level that is in line with demographic requirements.

Figure 1



[1] The forecasts included in this document are based on information available as of October 8, 2010.

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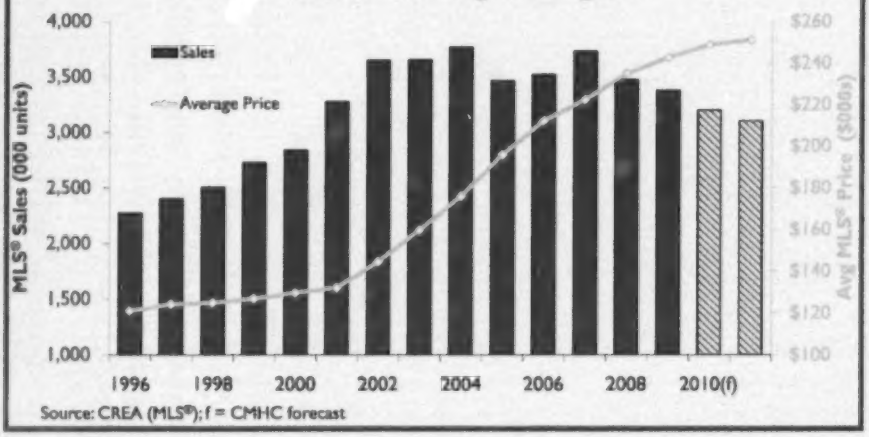
Figure 2

Existing Home Market Activity to Remain Above Historical Average in Kingston



Source: CREA (MLS®); f = CMHC forecast

Resale Market

Resale transactions moderate this year, stabilize next year

Existing home sales will moderate during the second half of 2010 but will stabilize next year as the "pull forward effect" on sales earlier this year dampens demand in subsequent months. Prospects for sustainable growth in Kingston's employment income should help minimize the decline in existing home sales activity in 2011. Kingston home sales have dropped to levels that are considered sustainable and in line with the 15-year historical average.

More balanced market conditions will prevail

The current sales-to-new listings ratio (SNLR), a leading indicator of the pulse of the market, is pointing towards a moderation in the growth in prices. Between October 2009 and April 2010, the SNLR has consistently been held in the sellers' territory. However, with the current number of new listings rising faster than sales, conditions in the resale market are expected to move toward balance for the rest of the year and into 2011.

According to the latest CMHC calculation, required income to buy a home in Kingston is anticipated to remain stable relative to the actual income for the average household. Consequently, homeownership affordability is projected to remain stable in 2011.

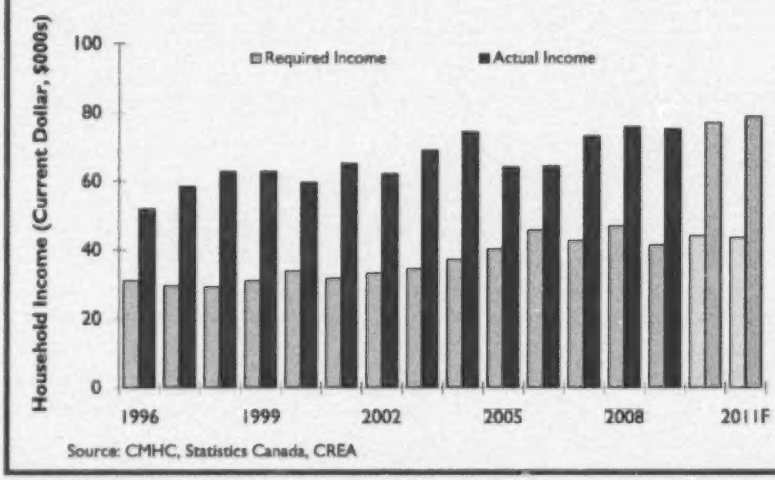
New Home Market

Total housing starts will decline modestly

Total housing starts in the Kingston CMA will decline modestly in 2010, as apartment start segment remains a drag on total residential construction activity this year. While the sharp increase in completion of rental units in the past six months has been the main reason for the current decline in apartment starts, on the demand side, the high unemployment rate among the youth population (aged

Figure 3

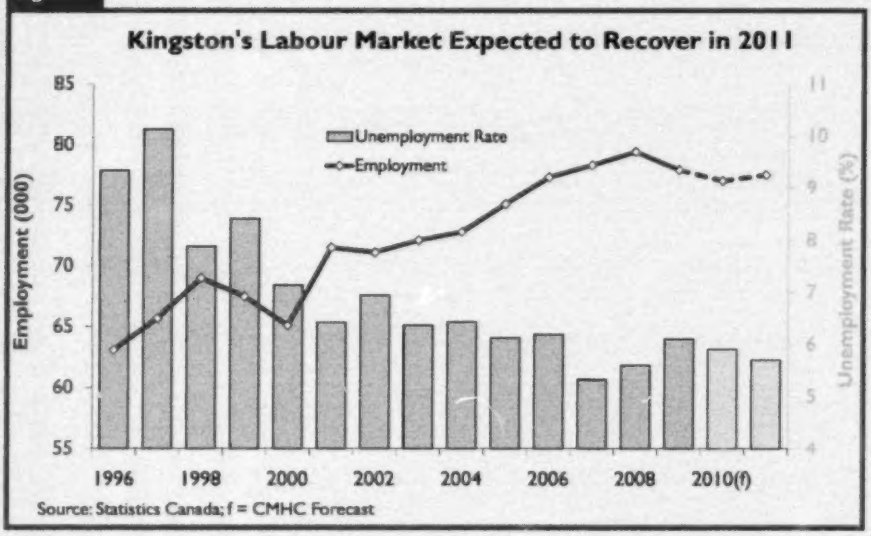
Kingston Homeownership Affordability Will Remain Stable in 2011



Source: CMHC, Statistics Canada, CREA

[1] The Required Income is carrying costs on average-priced MLS home divided by 32 per cent. Actual Income is average household income – 2008 to 2011 estimated using actual and forecast changes in average weekly earnings. Carrying costs based on 35 year amortization, 10 per cent down-payment, average posted fixed 5-yr. mortgage rates.

Figure 4



15-24) is also a limiting factor. In fact, between January and September 2010, the unemployment rate for this age group remains at double-digit while the overall unemployment rate in Kingston stays below six per cent.

Consequently, some young adults could remain or return to the parental home for economic reasons such as school attendance, financial difficulties, lack of job opportunities or the cost of living in a particular area. Generally, under unfavourable economic conditions, many potential renters are discouraged from forming a separate household. This reduced prospect of new household formation among potential renters may decrease the demand for rental accommodation and subsequently impacting apartment starts this year and into 2011.

The level of building permits, a forward looking indicator, suggests contraction in construction activities in late 2010 and into 2011. Declining construction intentions is a product of a more balanced resale market. The increase in new listings in the resale market provides more choice for homebuyers and this in turn may reduce the spill-over demand into the new home market. Therefore, total housing starts are projected to fall gradually to a level consistent with changes in household formation.

Single-detached construction is poised to surpass last year's level

In 2010, single-detached construction is poised to surpass last year's level as the demand for this type of dwelling remains strong in the Kingston CMA. For the most part, this segment of the market is supported by healthy employment gains among the move-up home buyer segment (aged 45 to 64). This age group has registered the largest gains in Kingston's total employment since the local economic recovery started late 2009. In fact, between January and September 2010, full-time employment among aged 45-64 has grown by nine per cent, emphasizing the notion that full-time employment has a higher propensity to stimulate the local housing market more than part-time positions.

On the supply side, the inventory of completed and unoccupied single-detached dwellings is relatively low, supporting expansion in new single-detached construction. Year-to-date housing starts activity for this type of dwelling has exceeded last year's level. Although single-detached housing starts is forecast to reach a higher level this year compared with last year, in 2011 however, construction activity will decline marginally to reflect a sluggish local economic recovery in Kingston.

New semi-detached and row units gaining ground

While single-detached dwellings are most popular among home buyers in Kingston due to the demographic composition, some first-time buyers will be more likely to settle for a less expensive home as the average price for a new single detached home remains relatively high.

Consequently, row starts will begin to gain momentum by year end and into next year as demand shifts in favour of smaller dwellings. Semi-detached starts are projected to continue their upward trend well into next year when this type of dwelling is anticipated to register a notable gain. Currently, the inventory levels of row and semis are low compared to last year. This will result in higher starts for this type of structures in the next two years.

Economic Overview

Expect Kingston's labour market to recover in 2011

The severity of the global economic downturn that began in late 2008 caused Kingston in 2009 to register its first

negative annual employment growth in seven years. Looking forward, with the slower than expected global economic recovery, the labour market in Kingston will remain flat this year before entering into a gradual recovery mode next year. Due to low participation rate, the pace of growth for both the labour force and employment are expected to adjust by the same magnitude, thus allowing the unemployment rate to remain below six per cent in the next two years. This low level of unemployment rate in Kingston will continue to attract additional residents into the area – keeping demand for housing relatively healthy.

Kingston still an attractive place for a modest urban lifestyle

Kingston is considered an attractive place for retirees to enjoy modest urban lifestyle. While the youth population has been shrinking in recent years, the empty nesters and seniors populations are expected to continue growing rapidly. The acceleration of in-migration by those 45 and over age group will continue to support the demand for detached dwellings at least in the medium term. Given that many seniors prefer to age in place in familiar surroundings, this will mean increasing demand for homes that can be easily adapted to meet life's changing needs as new seniors migrating into Kingston will seek a more supportive, maintenance-free lifestyle. Also, given the increasing difficulty of climbing stairs as they age, most seniors will opt for bungalows and condominiums.

Population growth supports housing demand

Overall, the population of the Kingston CMA will continue to grow, supported by positive inter-provincial and intra-provincial migration. In essence, net migration is projected to add about 500 people each year over the forecast period. In an effort to attract new immigrants, the City of Kingston has recently launched a Web Portal for newcomers to Kingston. This web technology is aimed at helping newcomers explore the great opportunities that the city has to offer. Meanwhile, at the provincial level, net migration is expected to rise this year and next as global economic growth reduces uncertainty and revives appetite for international travel to Ontario. Over the forecast period, Ontario will, on average, lose fewer migrants to the west relative to years past as the provincial economic recovery becomes more entrenched.

Mortgage rate outlook

According to CMHC's base case scenario, posted mortgage rates will remain flat in the second half of 2010 and in 2011. For 2010, the one-year posted mortgage rate is assumed to be in the 3.0 to 3.7 per cent range, while three and five-year posted mortgage rates are forecast to be in the 3.2 to 6.1 per cent range. For 2011, the one-year posted mortgage rate is assumed be in the 2.7 to 3.7 per cent range, while three and five-year posted mortgage rates are forecast to be in the 3.5 to 6.0 per cent range.

Forecast Summary
Kingston CMA
Fall 2010

	2007	2008	2009	2010f	% chg	2011f	% chg
Resale Market							
MLS® Sales	3,725	3,473	3,377	3,200	-5.2	3,100	-3.1
MLS® New Listings	6,716	7,281	6,259	6,530	4.3	6,890	5.5
MLS® Average Price ($)	222,300	235,047	242,729	248,800	2.5	251,000	0.9
New Home Market							
Starts:							
Single-Detached	600	546	432	500	15.7	400	-20.0
Multiples	280	126	285	150	-47.4	190	26.7
Semi-Detached	16	48	20	25	25.0	30	20.0
Row/Townhouse	85	41	41	45	9.8	60	33.3
Apartments	179	37	224	80	-64.3	100	25.0
Starts - Total	880	672	717	650	-9.3	590	-9.2
Average Price ($):							
Single-Detached	266,145	258,693	269,153	276,500	2.7	279,500	1.1
Semi-Detached	194,100	209,888	207,794		n/a		n/a
Median Price ($):							
Single-Detached	260,000	254,900	269,300	275,000	2.1	280,000	1.8
Semi-Detached	197,600	199,900	190,000		n/a		n/a
New Housing Price Index (% chg) (Ont.)	2.6	3.5	0.1	n.a.	-	n.a.	-
Rental Market							
October Vacancy Rate (%)	3.2	1.3	1.3	1.6	0.3	1.2	-0.4
Two-bedroom Average Rent (October) ($)	856	880	909	935	2.9	960	2.7
Economic Overview							
Mortgage Rate (1 year) (%)	6.90	6.70	4.02	3.47	-	3.20	-
Mortgage Rate (5 year) (%)	7.07	7.06	5.63	5.59	-	5.20	-
Annual Employment Level	78,300	79,400	77,900	77,000	-1.2	77,500	0.6
Employment Growth (%)	1.3	1.4	-1.9	-1.2	-	0.7	-
Unemployment rate (%)	5.3	5.6	6.1	5.9	-	5.7	-
Net Migration	179	1,057	1,127	350	-	500	-

MLS® is a registered trademark of the Canadian Real Estate Association (CREA).

Source: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), CREA, Statistics Canada (CANSIM)
NOTE: Rental universe = Privately initiated rental apartment structures of three units and over

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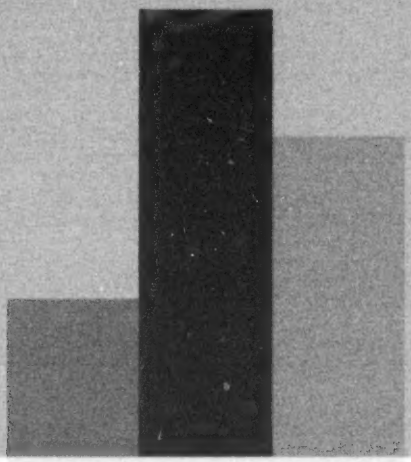

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